A CASE BY CASE ANALYSIS OF FASB AND ITS PUBLIC ACCOUNTING APPLICATION

by

Ethan Holmes

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Approved by ______________________________

Authorized by ______________________________

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Abstract

The following compilation of cases explore the intricacies of public accounting by simulating real life situations and problems that arise when using and applying the commonly accepted public accounting concepts and regulation. Using prompts for each case that were provided by Dr. Victoria Dickinson, Ph.D., CPA, of the Patterson School of Accountancy, I applied my knowledge of accounting concepts along with supplementation from the Federal Accounting Standards Board's (FASB) Codification to interoperate, draw conclusions about, and give opinions on each case.

Case 1:

Adjusting Entries

Eads Heaters, Inc.

General Ledger

Date		Debit	Credit
31-Dec	Bad Debt Expense	$ 4,970.00	
	Allowance for Bad Debts		$ 4,970.00
31-Dec	Cost of Goods Sold	$ 188,800.00	
	Inventory		$ 188,800.00
31-Dec	Depreciation Expense	$ 30,000.00	
	Accumulated Depreciation-Building		$ 10,000.00
	Accumulated Depreciation-Equipment		$ 20,000.00
31-Dec	Leased Equipment	$ 92,000.00	
	Lease Payable		$ 92,000.00
31-Dec	Lease Payable	$ 8,640.00	
	Interest Expense	$ 7,360.00	
	Cash		$ 16,000.00
31-Dec	Depreciation Expense	$ 11,500.00	
	Accumulated Depreciation-Leased Equipment		$ 11,500.00
31-Dec	Income Tax Provision	$ 23,505.00	
	Cash		$ 23,505.00

Eads Heaters, Inc.
Balance Sheet as of December 31, 20X1

Assets			
Current Assets			
Cash			$ 7,835.00
Accounts Receivable			$ 99,400.00
Allowance for Bad Debts			-$ 4,970.00
Inventory			$ 51,000.00
Total Current Assets			$ 153,265.00
Non-Current Assets			
Land			$ 70,000.00
Building			$ 350,000.00
Accumulated Depreciation- Building		-$ 10,000.00	
Equipment			$ 80,000.00
Accumulated Depreciation- Equipment	-$ 20,000.00		
Leased Equipment			$ 92,000.00
Accumulated Depreciation- Leased Equipment	-$ 11,500.00		
Total Non-Current Assets			$ 550,500.00
Total Assets			**$ 703,765.00**
Liabilities			
Current Liabilities			
Accounts Payable			$ 26,440.00
Interest Payable			$ 6,650.00
Total Current Liabilities			$ 33,090.00
Non-Current Liabilities			
Notes Payable			$ 380,000.00
Lease Payable			$ 83,360.00
Total Non-Current Liabilities		$ 463,360.00	
Total Liabilities			**$ 496,450.00**
Equity			
Common Stock			$ 160,000.00
Dividends			-$ 23,200.00
Sales			$ 398,500.00
Cost of Goods Sold			-$ 188,800.00
Bad Debt Expense			-$ 4,970.00
Accumulated Depreciation- Building		-$ 10,000.00	
Accumulated Depreciation- Equipment	-$ 20,000.00		
Accumulated Depreciation- Leased Equipment	-$ 11,500.00		
Interest Expense			-$ 35,010.00
Other Operating Expenses		-$ 34,200.00	
Provision for Income Taxes		-$ 23,505.00	
Total Equity			**$ 207,315.00**
Total Liability and Equity			**$ 703,765.00**

Eads Heaters, Inc.
Statement of Retained Earnings December 31, 20X1

Retained Earnings January 1, 20X0	$ -
Plus: Net Income	$ 70,515.00
Less: Dividends	-$ 23,200.00
Retained Earnings December 31, 20X1	$ 47,315.00

Eads Heaters, Inc.
Income Statement December 31, 20X1

Sales		$ 398,500.00
Cost of Goods Sold		-$ 188,800.00
Gross Profit		**$ 209,700.00**
Operating Expenses		
Bad Debt Expense	$ 4,970.00	
Depreciation Expense-Building	$ 10,000.00	
Depreciation Expense-Equipment	$ 20,000.00	
Depreciation Expense- Leased Equipment	$ 11,500.00	
Other Operating Expenses	$ 34,200.00	$ 80,670.00
Income from Operations		**$ 129,030.00**
Other Expenses and Losses		
Interest Expense		$ 35,010.00
Income before income tax		$ 94,020.00
Estimated income tax		$ 23,505.00
Net Income		**$ 70,515.00**

Eads Heaters, Inc.
Statement of Cash Flows December 31, 20X1

Operating Activities		
Net Income		$ 70,515.00
Adjustments to reconcile net income to net cash provided by operating activities:		
	Depreciation- Leased Equipment	$ 11,500.00
	Depreciation-Building	$ 10,000.00
	Depreciation-Equipment	$ 20,000.00
	Increase in Accounts Receivable	-$ 99,400.00
	Increase in Inventory	-$ 51,000.00
	Increase in Accounts Payable	$ 26,440.00
	Increase in Interest Payable	$ 6,650.00
	Allowance for Bad Debts	$ 4,979.00
Net Cash provided by Operating Activities		-$ 325.00
Investing Activities		
	Purchase of Building	-$ 350,000.00
	Purchase of Equipment	-$ 80,000.00
	Purchase of Land	-$ 70,000.00
Net Cash used by Investing Activities		-$ 500,000.00
Financing Activities		
	Payment of Cash Dividend	-$ 23,200.00
	Issuance of Common Stock	$ 160,000.00
	Long Term Note Payable	$ 400,000.00
	Payment of Lease Payable	-$ 8,640.00
	Long Term Financing Repayment	-$ 20,000.00
Net Cash used by Financing Activities		$ 508,160.00
Net Increase in Cash		$ 7,835.00
Cash: January 1, 20X1		$ -
Cash: December 31, 20X1		$ 7,835.00

Analysis of Financial Statements

After analysis of these financial Statements I would recommend investing in Glenwood Heating, Inc. over Eads Heaters, Inc. I would also have more confidence in lending money to Glenwood as opposed to Eads. Glenwood's current assets are more likely to satisfy its current liabilities than Eads' in the next year. Glenwood's current-ratio is 4.88 times as compared to Eads' at 3.67 times. Glenwood also has a better acid-test ratio at 3.02 times compared to Eads' 2.57 times. Also, the debt equity ratios of these two corporations further support Glenwood Heating, Inc. The debt-equity ratio for Glenwood is 1.8:1 whereas Eads' debt equity ratio is 2.4:1.

However, Eads Heaters, Inc. did use the more conservative approach to both depreciate its Equipment and account for Cost of Goods Sold. This will be something to watch closely in future year's financial statements.

CASE 2:

INCOME STATEMENT DISCLOSURE

AND ADVISEMENT

Totz and Doodlez

Introduction

This document is meant to be used by Totz, Inc. as advisement for the disclosure and presentation of this year and previous year's Income Statements as well as their related items in question as provided for by the Financial Accounting Standards Board (FASB). This is in an attempt to make the information in these Income Statements more helpful and useful to consumers and users.

Disclosure and Presentation of Net Sales

Net Sales on the 2015 and 2016 income statements should be presented in two different ways. In 2015, Service Revenue from the in-store art studio Doodlez may be combined with the Sales Revenue from Totz, Inc. In 2016 however, Net Sales needs to be presented in two separate classifications in order to be in accordance with the FASB codification. The two classifications are "Sales Revenue" and "Service Revenue". The Sales Revenue will be the revenues received from the retail portion of Totz, Inc. The Service Revenue will be those revenues which were generated by Doodlez. This is due to the fact that the revenues from Doodlez are only 5.23% of the total Net Sales. However, in 2016 the revenues from Doodlez are 12.95% of the total Net Sales. This presentation complies with the FASB codification 225-10-S99-2 which states that:

> "[…] (b) If income is derived from more than one of the sub-captions described under § 210.5–03.1, each class which is not more than 10 percent of the sum of the items may be combined with another class. If these items are combined, related costs and expenses as described under § 210.5–03.2 shall be combined in the same manner.
>
> 1. Net sales and gross revenues. State separately:
>
> (a) Net sales of tangible products (gross sales less discounts, returns and allowances),

(b) operating revenues of public utilities or others;

© income from rentals;

(d) revenues from services; and

(e) other revenues. […]"

Disclosure and Presentation of Cost of Goods Sold

The Costs of Goods sold section of the Income Statement should be presented in a similar fashion as the Net Sales of Totz, Inc. in compliance with the FASB codification. Cost of Goods Sold on the 2015 Income statement should be classified and presented in as one number classified as "Cost of Goods Sold". Cost of Goods Sold on the 2016 Income Statement should be classified as two numbers classified as "Cost of Goods Sold" for the Totz, Inc. retail including production costs and freight in and import costs as well as "Cost of Services" for Doodlez including direct labor costs. This presentation complies with the FASB codification 225-10-S99-2 which states that:

"[…] A public utility company using a uniform system of accounts or a form for annual report prescribed by federal or state authorities, or a similar system or report, shall follow the general segregation of operating revenues and operating expenses reported under § 210.5–03.2 prescribed by such system or report.

[…]

2. Costs and expenses applicable to sales and revenues.

State separately the amount of

(a) cost of tangible goods sold,

(b) operating expenses of public utilities or others,

(c) expenses applicable to rental income,

(d) cost of services, and

(e) expenses applicable to other revenues. […]"

Also, it must be stated that Cost of Goods Sold is shown exclusive of depreciation. This presentation is in compliance with the FASB codification 225-10-S99-8 which states:

"SAB Topic 11.B, Depreciation and Depletion Excluded from Cost of Sales

S99-8

The following is the text of SAB Topic 11.B, Depreciation and Depletion Excluded from Cost of Sales.

Facts: Company B excludes depreciation and depletion from cost of sales in its income statement.

Question: How should this exclusion be disclosed?

Interpretive Response: If cost of sales or operating expenses exclude charges for depreciation, depletion and amortization of property, plant and equipment, the description of the line item should read somewhat as follows: "Cost of goods sold (exclusive of items shown separately below)" or "Cost of goods sold (exclusive of depreciation shown separately below)." To avoid placing undue emphasis on "cash flow," depreciation, depletion and amortization should not be positioned in the income statement in a manner which results in reporting a figure for income before depreciation."

Disclosure and Presentation of Gain on Sale of Corporate Headquarters

The gain incurred on the sale of the Corporate Headquarters is not permitted to be presented on the Income Statement as any form of operating revenue. However, it should be presented in the Unusual Revenues and Gains section of the Income Statement due to its infrequency and uniqueness of occurrence. This presentation is in compliance with the FASB codification 225-20-45-16 which states that:

> "A material event or transaction that is unusual in nature or occurs infrequently but not both, and therefore does not meet both criteria for classification as an extraordinary item, shall be reported as a separate component of income from continuing operations. The nature and financial effects of each event or transaction shall be disclosed on the face of the income statement or, alternatively, in notes to financial statements. Gains or losses of a similar nature that are not individually material shall be aggregated. Such items shall not be reported on the face of the income statement net of income taxes or in any other manner that may imply that they are extraordinary items. Similarly, the EPS effects of those items shall not be presented on the face of the income statement."

Disclosure and Presentation of Proceeds Received from Class Action Settlement

The receipt of proceeds from the Class Action Settlement falls under the same presentation as the above Gain on the Sale of Corporate Headquarters. Again, refer to the FASB codification 225-20-45-16. This item must not be presented as a normal operating revenue due to its infrequency and uniqueness.

Case 3:

Financial Statement Preparation

Rocky Mountain Chocolate

		Beginning Balance (February 28, 2009)	1. Purchase Inventory	2. Incur Factory wages	3. Sell Inventory for cash and on account	4. Pay for Inventory	5. Collect receivable	6. Incur SG&A (cash and payable	7. Pay Wages	8. Receive franchise fee
Dr.	Cash and cash equivalents	$ 1,253,947.00			$ 17,000,000.00	-$ 8,200,000.00	$ 4,100,000.00	-$ 2,000,000.00	-$ 6,423,789.00	$ 125,000.00
	Accounts Recievable	$ 4,229,733.00			$ 3,000,000.00		-$ 4,100,000.00			
	Notes Receivable, current	$ -								
	Inventories	$ 4,064,611.00	$ 7,500,000.00	$ 6,000,000.00	-$ 14,000,000.00					
	Deffered Income Taxes	$ 369,197.00								
	Other	$ 224,378.00								
	Property and Equipment, Net	$ 5,253,598.00								
	Notes Receivable, less current portion	$ 124,452.00								
	Goodwill, net	$ 1,046,944.00								
	Intangible assets, net	$ 183,135.00								
	Other	$ 91,057.00								
Cr.	Accounts Payable	$ 1,074,643.00	$ 7,500,000.00			-$ 8,200,000.00				
	Accrued salaries and Wages	$ 423,789.00		$ 6,000,000.00					-$ 6,423,789.00	
	Other accrued expenses	$ 531,941.00						$ 3,300,000.00		
	Dividend Payable	$ 598,986.00								
	Deffered Income	$ 142,000.00								$ 125,000.00
	Deferred Income Taxes	$ 827,700.00								
	Common Stock	$ 179,696.00								
	Additional Paid in Capital	$ 7,311,280.00								
	Retained Earnings	$ 5,751,017.00								
	Sales	$ -			$ 22,000,000.00					
	Franchise and royalty fees	$ -								
Dr.	Cost of Sales	$ -			$ 14,000,000.00					
	Franchise Costs	$ -								
	Sales & Marketing	$ -						$ 1,505,431.00		
	General and administrative	$ -						$ 2,044,569.00		
	Retail operating	$ -						$ 1,750,000.00		
	Depreciation and Amortization	$ -								
	Interest income	$ -								
	Income Tax Expense	$ -								
	A = L + OE + R - E	0								

9. Purchase PPE	10. Dividends declared and paid	11. All other transactions	Unadjusted Trial Balance	Adjusted for Inventory Count	Record depreciation	Wages accrual	Consultant's report	Pre-closing trial balance	Closing entry	Post-Closing (ending) balance	Actual February 28, 2010 F/S figures
-$ 498,832.00	-$ 2,403,458.00	$ 790,224.00	$ 3,743,092.00					$ 3,743,092.00		$ 3,743,092.00	$ 3,743,092.00
		-$ 702,207.00	$ 4,427,526.00					$ 4,427,526.00		$ 4,427,526.00	$ 4,427,526.00
		$ 91,059.00	$ 91,059.00					$ 91,059.00		$ 91,059.00	$ 91,059.00
		-$ 66,328.00	$ 3,498,283.00	-$ 216,836.00				$ 3,281,447.00		$ 3,281,447.00	$ 3,281,447.00
		$ 92,052.00	$ 461,249.00					$ 461,249.00		$ 461,249.00	$ 461,249.00
		-$ 4,215.00	$ 220,163.00					$ 220,163.00		$ 220,163.00	$ 220,163.00
$ 498,832.00		$ 132,859.00	$ 5,885,289.00		-$ 698,580.00			$ 5,186,709.00		$ 5,186,709.00	$ 5,186,709.00
		$ 139,198.00	$ 263,650.00					$ 263,650.00		$ 263,650.00	$ 263,650.00
			$ 1,046,944.00					$ 1,046,944.00		$ 1,046,944.00	$ 1,046,944.00
		-$ 73,110.00	$ 110,025.00					$ 110,025.00		$ 110,025.00	$ 110,025.00
		-$ 3,007.00	$ 88,050.00					$ 88,050.00		$ 88,050.00	$ 88,050.00
		$ 503,189.00	$ 877,832.00					$ 877,832.00		$ 877,832.00	$ 877,832.00
			$ -			$ 646,156.00		$ 646,156.00		$ 646,156.00	$ 646,156.00
		-$ 2,885,413.00	$ 946,528.00					$ 946,528.00		$ 946,528.00	$ 946,528.00
	$ 3,709.00	-$ 1.00	$ 602,694.00					$ 602,694.00		$ 602,694.00	$ 602,694.00
		-$ 46,062.00	$ 220,938.00					$ 220,938.00		$ 220,938.00	$ 220,938.00
		$ 66,729.00	$ 894,429.00					$ 894,429.00		$ 894,429.00	$ 894,429.00
		$ 1,112.00	$ 180,808.00					$ 180,808.00		$ 180,808.00	$ 180,808.00
		$ 315,322.00	$ 7,626,602.00					$ 7,626,602.00		$ 7,626,602.00	$ 7,626,602.00
	-$ 2,407,167.00		$ 3,343,850.00					$ 3,343,850.00	$ 3,580,077.00	$ 6,923,927.00	$ 6,923,927.00
		$ 944,017.00	$22,944,017.00					$ 22,944,017.00	-$ 22,944,017.00	$ -	$ 22,944,017.00
		$ 5,492,531.00	$ 5,492,531.00					$ 5,492,531.00	-$ 5,492,531.00	$ -	$ 5,492,531.00
		$ 693,786.00	$14,693,786.00	$ 216,836.00				$ 14,910,622.00	-$ 14,910,622.00	$ -	$ 14,910,622.00
		$ 1,499,477.00	$ 1,499,477.00					$ 1,499,477.00	-$ 1,499,477.00	$ -	$ 1,499,477.00
			$ 1,505,431.00					$ 1,505,431.00	-$ 1,505,431.00	$ -	$ 1,505,431.00
		-$ 261,622.00	$ 1,782,947.00			$ 639,200.00		$ 2,422,147.00	-$ 2,422,147.00	$ -	$ 2,422,147.00
			$ 1,750,000.00			$ 6,956.00		$ 1,756,956.00	-$ 1,756,956.00	$ -	$ 1,756,956.00
			$ -		$ 698,580.00			$ 698,580.00	-$ 698,580.00	$ -	$ 698,580.00
		$ 27,210.00	$ 27,210.00					$ 27,210.00	-$ 27,210.00	$ -	-$ 27,210.00
		$ 2,090,468.00	$ 2,090,468.00					$ 2,090,468.00	-$ 2,090,468.00	$ -	$ 2,090,468.00
		$ -	$ -					$ -		$ -	

Rocky Mountain Chocolates
Income Statement
For the Year Ended Feb 28, 2010

REVENUE			
	Sales	$22,944,017.00	
	Franchise and Royalty Fees	$ 5,492,531.00	
	NET SALES		$28,436,548.00
COST OF SALES			$14,910,622.00
GROSS PROFIT			$13,525,926.00
OPERATING EXPENSES			
Franchise Costs		$1,499,477.00	
Sales & Marketing		$1,505,431.00	
General and administrative		$2,422,147.00	
Retail operating		$1,756,956.00	
Depreciation and Amortization		$698,580.00	
	TOTAL OPERATING EXPENSE		$7,882,591.00
INCOME FROM OPERATIONS			$5,643,335.00
OTHER INCOME AND EXPENSES			
Interest Income		$27,210.00	
	TOTAL OTHER INCOME AND EXPENSES		$27,210.00
	INCOME BEFORE INCOME TAX		$5,670,545.00
INCOME TAX			$2,090,468.00
NET INCOME			**$3,580,077.00**
BASIC EPS			$0.60
WEIGHTED AVERAGE COMMON SHARES OUTSDANDING		6,012,717	
DILUTED EARNINGS PER COMMON SHARE			$0.58
DILUTIVE EFFECT OF EMPLYEE STOCK OPTINOS		197,521	
WEIGHTED AVERAGE COMMON SHARES OUTSDANDING ASSUMING DILUTION		6,210,238	

Rocky Mountain Chocolates
Balance Sheet for the Years Ended
Feb 28, 2009 and Feb 28, 2010

	2010
Assets	
Current Assets	
Cash and Cash equivalents	$ 3,743,092.00
Accounts Receivable, less allowance for doubtful accounts of 395,291 and 332,719, respectively	$ 4,427,526.00
Notes Receivable, current	$ 91,059.00
Inventories, less reserve for slow moving inventory of 263,872 and 251,922 respectively	$ 3,281,447.00
Deferred income Taxes	$ 461,249.00
Other	$ 220,163.00
Total Current Assets	$ 12,224,536.00
Property and Equipment, Net	$ 5,186,709.00
Other Assets	
Notes receivable, less current portion	$ 263,650.00
Goodwill, net	$ 1,046,944.00
Intangible assets, net	$ 110,025.00
Other	$ 88,050.00
Total Other Assets	$ 1,508,669.00
Total Assets	$ 18,919,914.00
Liabilities and Stockholder's Equity	
Current Liabilities	
Accounts payable	$ 877,832.00
Accrued salaries and wages	$ 646,156.00
Other accrued expenses	$ 946,528.00
Dividend payable	$ 602,694.00
Deferred Income	$ 220,938.00
Total Current Liabilities	$ 3,294,148.00
Deferred Income Taxes	$ 894,429.00

	2010
Stockholder's Equity	
Preferred stock, $.10 par; 250,000 authorized; 0 shares issued and outstanding	
Series A Junior Participating Preferred Stock, authorized 50,000 shares	
Undesignated series, authorized 50,000 shares	
Common stock, $.03 par; 100,000,000 shares authorized; 6,026,938 and 5,989,858 shares issued and outstanding, respectively	$ 180,808.00
Additional Paid-in capital	$ 7,626,602.00
Retained Earnings	$ 6,923,927.00
Total Stockholders' Equity	$ 14,731,337.00
Total Liabilities and Stockholders' Equity	$ 18,919,914.00

Rocky Mountain Chocolates
Statement of Retained Earnings
For the Year Ended Feb 28, 2010

Retained Earnings at December 31, 2009	$	5,751,017.00
Net Income for the year ended December 31 2010	$	3,580,077.00
Dividends Paid to Shareholders'	$	-2,407,167.00
Retained Earnings at December 31, 2010	$	6,923,927.00

Rocky Mountain Statement of Cash Flows For the Year Ended February 28,2010		
Cash flows from operating activities		
Net Income	$	3,580,077.00
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and Amortization	$	698,580.00
Deferred Taxes	$	461,249.00
Increase in Accounts Receivable	-$	197,793.00
Decrease in Inventory	$	783,164.00
Decrease in Accounts Payable	-$	196,811.00
Net Cash provided from operating activities	$	5,128,466.00
Cash flows from investing operations		
Purchase of PP&E	-$	498,832.00
Net Cash provided from investing activities	-$	498,832.00
Cash flows from financing operations		
Dividends Paid	-$	2,403,458.00
Net Cash provided by financing operations	-$	2,403,458.00
Net Increase in Cash	$	2,226,176.00
Cash at beginning of year	$	1,253,947.00
Cash at end of year	$	3,480,123.00

Case 4:

Cash/Receivables: Examining Potential Fraud Schemes and Internal Control Procedures

Prepared by Natalie Fischer, Austin Garrett, Ethan Holmes, Matthew McInnis, Jessica Pearson, and Kellie Shannon

Summary:

As the owner of a small craft shop in Oxford, Mississippi, Ms. Kayla Stevens faces the possibility that fraud schemes are occurring at her local business. To safeguard the craft shop's operations, Kayla should implement internal control systems, which include checks and balances created to prevent and detect fraud. Table 4-1 identifies various fraud schemes and recommends internal control procedures to protect the business.

Fraud Scheme	Internal Control
Lucy may understate or not record sales as she has the power to both record sales and prepare bank deposits. Thus, Lucy could understate sales and pocket cash that she does not include with the bank deposits.	Separation of duties – Kayla should separate the responsibilities for receiving, depositing, recording, and reconciling cash so that an employee cannot both commit and conceal fraud. Clerks should collect cash during sales. A different individual should record daily sales, and Lucy may prepare bank deposits.
Kayla takes deposits to the bank and reconciles bank statements. This current system allows for embezzlement.	Separation of duties – While dividing all responsibilities may be difficult since the business is small, separation of duties provides greater internal control. One person should take deposits to the bank, and Kayla can reconcile bank statements.
Inventory purchases could be fraudulent since Kayla pays bills and also monitors, records, and orders inventory. One could order inventory but then keep it for personal purposes instead of recording it in the inventory account. One could also write fraudulent checks for fake invoices.	Separation of duties – One clerk will order inventory with Kayla's authorization, and another clerk will record the inventory once it arrives in the store. Then, Kayla can pay invoices. Thus, no one has enough power to steal inventory and hide such behavior in the records.
Clerks may input fake or inaccurate transactions as they have authority for entering all types of transactions in the registers. The shop's new coupon program may allow clerks to enter false discounts and pocket the difference between the money collected and the sale recorded.	Access control – The types of transactions clerks can enter should be restricted, and employees should receive authorization before they can issue a refund or enter any irregular transaction into the cash register. This internal control should limit a clerk's ability to record an erroneous sale.

Fraud Scheme	Internal Control
The clerks' unlimited authority in entering transactions also allows Amanda, Becca, Sam, or Wendy to steal cash directly from the cash register.	Access control – Clerks should not remove cash without authorization. Requiring unique codes to use the register allows employee activity to be tracked, and Kayla should require the reconciliation of cash to check that the amount of cash on hand matches the receipts. To find a culprit, Kayla can give employees vacation and see if cash discrepancies continue or end during a particular employee's time off.
The credit card machine is behind the cash registers. Clerks may steal credit card information or perform fraudulent actions since customers cannot see that their credit card transactions are performed correctly.	Physical control – Kayla should relocate the credit card machine next to the cash registers to ensure that the credit card is swiped and that the transaction is properly completed at the correct price.
The amount recorded for sales or cash earned may be manipulated or presented inaccurately as the store's information system automatically updates inventory accounts while Lucy manually records sales in the accounting software.	Application and access control – Kayla can consider purchasing more sophisticated software that automatically records sales to prevent manipulation of data. If Lucy must enter sales manually, an access control should limit her access to other parts of the accounting software.
If transactions have no identification number or if register tape is not compared to the amount of sales journalized, Lucy or clerks can alter transactions without any matching supplemental records, and their actions will go unnoticed.	Application control – Kayla should use software that indexes each sale with details like the transaction number, date, amount, and clerk's name. This internal control provides unaltered evidence of sales for audits and allows the actual cash balance to be reconciled to the register tape's sales.
Lucy's locked office may allow her to operate in secret.	Physical control – Any business space is property of the business, and Kayla needs a key to Lucy's office to discourage any unauthorized actions. Kayla should keep a safe in her locked office for security.
Kayla has control of all other accounting functions, so she has the ability to commit fraud schemes such as embezzlement, misrepresenting net income, and stealing inventory.	Independent verification – Kayla should consider using an objective accountant to ensure the integrity of financial records. For example, a physical inventory count by external and internal parties can reconcile perpetual inventory records with the true amount of product sold.

Case 5:

Inventory Analysis

1. Raw Materials are the total costs of goods purchased from vendors in order to produce goods that have not yet been moved to the production process. These include direct materials and indirect materials. Shipping expense could also be included in Raw Materials. Work-In-Process includes direct labor costs, direct materials, and factory overhead costs. These are only materials that have not yet been completed and transferred to finished goods. Finished Goods inventory includes direct labor, direct materials, and factory overhead costs as well. It also includes the carrying costs

2. Inventories are recorded net of an estimated allowance for obsolete or unmarketable inventory. This is often referred to as the Inventory Reserve, and is a contra account to Inventory.

3. A. This account appears on the company's financial statements either below inventories as a contra asset account, or in a note provided with the financial statements if inventories is disclosed at net.

   B. End of 2011: 243,870

   End of 2012: 224,254

   C. Finished goods Inventory would have most of this portion of obsolete inventory attached to it. Some of it may be attached to Raw materials but not much

4. Cost of Goods Sold 13,348

Cost of Goods Sold	13,348	
Obsolete Inventory		13348

Obsolete Inventory 11,628

Inventory 11,628

Accounts Payable			COGS	
	39,012		572,549	
	438,561		13,348	
432,197				
	45,376		585,897	
Work in Progress			Finished Goods	
1,286			184,808	
126,000				13,348
442,068			568,735	
	568,735			572,549
619			167,646	
Raw Materials				
46,976				
438,561				
	442,068			
43,469				

5. Inventory Turnover Ratio (Cost of Sales/ Avg. Inventories, net):
   2011= 2.29
   (575,226/250830.50)

   2012= 2.63
   (585,897/222,402)

6. Inventory Holding Period (365/Inventory Turnover Ratio):
   2011= 159.39
   (365/2.29)

   2012= 138.78
   (365/2.63)

7. Percentage of Obsolete Finished Goods= 7.37%
   (13,348/167,646+13348)

As an investor, I would like to know more about the what is causing these finished goods inventories to become obsolete. It would also be beneficial to know the company's current ratio since Inventory is a current asset.

Case 6:

Asset Capitalization

WorldCom

A. I. Assets as described my CON 6 are: Probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. Expenses as described by CON 6 are: outflows or other using up of assets or incurrences of liabilities (or a combination of both) from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major or central operations.

II. Costs should be expensed when it is determined that operating revenues will be recognized. Costs should be capitalized when they are associated with assets that will provide future revenues

B. After initial capitalization, costs will be allocated out through depreciation. This will be done based on the useful life of the Asset.

C. Line Costs in 2001 were reported as: 14,739

The journal entry made for this item was:

Line Costs	14,739	
Cash		14,739

These line costs were additional charges required to complete calls.

D. These "Line Costs" were improperly capitalized. The transactions to pay for the completion of a call gave rise to these costs. The "Line Cost" item does not meet the requirements of an asset as stated by CON 6. This should be expense because it uses up an asset (Cash) in order to render a service.

E. PP&E 3,055
Line Costs 3,055

Quarter	Cost Improperly Capitalized	Annual Depreciation Expense
Q1	771,000,000	35,045,455
Q2	610,000,000	20,795,455
Q3	743,000,000	16,886,364
Q4	931,000,000	10,579,545
Total	3,055,000,000	83,306,818

F. Depreciation Expense 83,306,818
Accumulated Depreciation 83,306,818

G.

WorldCom, Inc. Income Statement for the Year Ending December 31

[…]

Income Before Income Taxes	**2,393,000,000**
Depreciation Expense	83,306,818
Less Line Costs	(3,055,000,000)
Loss Before Taxes	**(578,693,182)**
Income Tax Benefit	202,542,614
Minority Interest	(35,000,000)
Net Loss After Taxes	**(341,150,568)**

This difference in Net Income computed using the new method is certainly material.

Case 7:

Employee Termination Benefits

Targa Company

Targa Company,

Upon review of the given statements and data I have stated the appropriate accounting procedure for this situation below. First, however, I am concerned with the amount of time between the communication date and the termination date. According to the Worker Adjustment and Retraining Notification Act (WARN), employers with 100 employees or more are required to "provide notice 60 days in advance of covered plant closings and covered mass layoffs." You have only provided for 34 days of notice with a January 31 termination date.

In order to account for the employee termination benefits, Targa will record both a loss and a liability for $3,050,000. That includes the $2.5 million one-time termination benefit, the $500,000 two-weeks' severance pay, and the $50,000 lump sum due to the manager. The journal entry should look something like this:

Termination Benefit Expense	$	3,050,000		
Termination Benefit Liability			$	3,050,000

This treatment is in accordance with the **FASB Codification 712-10-25-2** which states:

"An employer that provides contractual termination benefits shall recognize a liability and a loss when it is probable that employees will be entitled to benefits and the amount can be reasonably estimated. The cost of termination benefits recognized as a liability and a loss shall include the amount of any lump-sum payments and the present value of any expected future payments."

Additionally, a liability will be recognized for the retraining and relocation costs, but not until these costs are incurred. This treatment is in accordance with the **FASB Codification 712-10-25-14&15** which states:

“14. Other costs associated with an exit or disposal activity include, but are not limited to, costs to consolidate or close facilities and relocate employees. 15. The liability shall not be recognized before it is incurred, even if the costs are incremental to other operating costs and will be incurred as a direct result of a plan. A liability for other costs associated with an exit or disposal activity shall be recognized in the period in which the liability is incurred (generally, when goods or services associated with the activity are received.)”

Case 8:

Dividends

Merck

A.

I. 5,400,000,000
II. 2,983,508,675
III. 29,835,086.75
IV. 811,005,791
V. 2,172,502,884
VI. 125,157,891,147

C. Dividends are paid as Incentives for people to invest. When dividends are paid stock, price goes down in correlation to dividend payout

D. Companies repurchase their own stock in order to own more of the company, as well as reduce the cost of capital and payoff investors. When stock is undervalued, companies can purchase low, then sell high.

E		
Dividend Declared	3310.7	
Dividend Payable		3.4
Cash		3307.3

G.

I. Cost
II. 26.5 (in millions)
III. 1429.7 total (in millions), .018535 per share, financing
IV. treasury stock is considered equity, no future benefit is expected from it

I.

(in millions)

Year	**2007**	**2006**
Dividend paid	3307.3	3322.6
Shares outstanding	2172.5	2167.8
NI	3275.4	4433.8
Total assets	48350.7	44569.8
Operating cash flows	6999.2	6765.2
YE stock price	57.61	41.94

Dividend per share	1.52	1.53
Dividend yield (dividend per share to stock price)	.026	.036
Dividend payout (dividend to net income)	1.009	.75
Dividend to total assets	.068	.075
Dividend to op cash flows	.472	.49

Every ratio decreased from 2006 to 2007 except for dividend payout. Merck paid about the same amount of dividend out even with a decrease of $1.2 billion in Net Income. The Dividend payout ratio over 1 indicates that they paid more Dividends in 2007 than they made in net income.

Case 9:

Stock Options

Xilinx, Inc.

A. Stock options allow employees the opportunity to purchase stock at a lower price than market price at some point in the future. Value of stock price is based on company's performance; therefore, they will wish to see the company succeed.
B. Restricted Stock Units (RSUs) would provide employees with less risk of losing the value of what is distributed. RSUs could also be provided before a company goes public in order for employees to whom the stocks are given would gain an advantage. Stock options would provide more benefit if the company was very profitable very quickly after issuance. An employee could then buy the stock for a low price, and sell it before the option expiration date for a larger profit
C. Grant Date: The date that an employee is given the stock option

   Exercise Price: price per share at which the owner of a traded option is entitled to buy or sell a security

   Vesting period: Time that an employee has to wait to exercise the stock option

   Expiration date: Date that an employee no longer has the right to exercise the option at the given exercise price

   Options/RSUs granted: RSUs are grant valued in terms of shares of company stock, but company stock is not issued at the time of the grant. Stock Options granted give an employee the right to purchase stock in the future at a certain price.

Options Exercised: Options that were exercised before the expiration date.

Options/RSUs forfeited or cancelled: options or RSUs that were never exercised by the expiration date

D. Xilinx employees have the right to purchase company stock at a price that is 85% lower than fair market value. However, this right comes with a few restrictions. Only 15% percent of employee's annual earnings can be utilized up to a maximum of $21 thousand a year. This company has an exercise period on their options of six months.

   This purchase plan differs from Stock Option plans because option plans give employees the right to buy a number of shares of stock at a fixed price over a defined period of time. This plan just allows employees to purchase the company shares at a discount.

E. Xilinx, Inc. distributes the costs of the exercise of benefits offered in their plans based on employee's respective department or category similar to how direct labor costs would be allocated to a product.

F. I. Total Before Tax Expense for Stock-Based Compensation Plan: $77,862

   II. Costs of Goods Sold, R&D, Selling, General, and Administrative

   III. The related costs in the operating section would be added back to the Cash Flows from Operating Activities section of the Cash Flow Statement.

IV. income taxes paid are higher for tax purposes than for book purposes, creating a deferred tax asset. The actual taxes paid in the future will be lower than recorded for financial purposes.

V.	Costs of Goods Sold	$	6,356		
	R&D Expense		37,937		
	SG&A Expense			33,569	
	Additional PIC – Stock Options			$	77,862

I. Options are on the decline, and RSUs are on the rise. Employee's would like Stock option plan better and find it more beneficial if employed by successful companies.

Case 10:

Revenue Recognition

Beer and Pretzels

FASB Codification 606-10-05-4:

An entity recognizes revenue in accordance with that core principle by applying the following steps:

a. Step 1: Identify the contract(s) with a customer—A ***contract*** *is an agreement between two or more parties that creates enforceable rights and obligations. The guidance in this Topic applies to each contract that has been agreed upon with a customer and meets specified criteria. In some cases, this Topic requires an entity to combine contracts and account for them as one contract. This Topic also provides requirements for the accounting for contract modifications. (See paragraphs 606-10-25-1 through 25-13.)*

b. Step 2: Identify the performance obligations in the contract—A contract includes promises to transfer goods or services to a customer. If those goods or services are distinct, the promises are ***performance obligations*** *and are accounted for separately. A good or service is distinct if the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. (See paragraphs 606-10-25-14 through 25-22.)*

c. Step 3: Determine the transaction price—The ***transaction price*** *is the amount of consideration in a contract to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. The transaction price can be a fixed amount of customer consideration, but it may sometimes include variable consideration or consideration in a form other than cash. The transaction price also is adjusted for the effects of the time value of money if the contract includes a significant financing component and for any consideration payable to the customer. If the consideration is variable, an entity estimates the amount of consideration to which it will be entitled in exchange for the promised goods or services. The estimated amount of variable consideration will be included in the transaction price only to the extent that it is* ***probable*** *that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. (See paragraphs 606-10-32-2 through 32-27.)*

d. Step 4: Allocate the transaction price to the performance obligations in the contract—An entity typically allocates the transaction price to each performance obligation on the basis of the relative ***standalone selling prices*** *of each distinct good or service promised in the contract. If a standalone selling price is not observable, an entity estimates it. Sometimes, the transaction price includes a discount or a variable amount of consideration that relates entirely to a part of the contract. The requirements specify when an entity allocates the discount or variable consideration to one or more, but not all, performance obligations (or distinct goods or services) in the contract. (See paragraphs 606-10-32-28 through 32-41.)*

e. Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation—An entity recognizes revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). The amount of revenue recognized is the amount allocated to the satisfied performance obligation. A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For performance obligations satisfied over time, an entity recognizes revenue over time by selecting an appropriate method for measuring the entity's progress toward complete satisfaction of that performance obligation. (See paragraphs 606-10-25-23 through 25-30.)

Part I

Step 1: Identify the contract with a customer: Bier Haus offers to give the student beer with the promise of $5

Step 2: Identify the performance obligations: Bier Haus' obligation is to pour beer and deliver it to the student

Step 3: Determine the Transaction Price: $5

Step 4: Allocate Transaction Price to the performance obligations in contract: $5 for delivery of beer

Step 5: Recognize Revenue as performance obligations are complete: $5 once beer is delivered

Cash	$ 5	
Sales		$ 5

Part II

Step 1: Identify the contract with a customer: Transfer mug and beer to the student for promise of $7

Step 2: Identify the performance obligation: Pour beer in Ole Miss thermal mug and deliver to the student

Step 3: Determine Transaction Price: $7

Step 4: Allocate Transaction Price to the performance obligations in contract: $ 4.37 for delivery of beer (5/8 * 7) / $ 2.63 for the mug (2/8 * 7)

Step 5: Recognize Revenue as performance obligations are complete: at point of obligation completion $7

Cash	$ 7	
Mug Sales		$ 2.63
Beer		$ 4.37

Part III:

Step 1: Identify the contract with a customer: Transfer beer and pretzel coupon to the student for a promise of $7

Step 2: Identify the performance obligation: Transfer beer and coupon to customer

Step 3: Determine transaction price: $7

Step 4: Allocate Transaction Price to the performance obligations in contract:

3.50/8.50 =.412 beer 5/8.50= .588 .412 * 7 + .588 *7= $7

Step 5: Recognize Revenue as performance obligations are complete:

Beer: $5 Pretzel Coupon: 0

Cash	$ 7	
Unearned Service Revfrom Coupon		$ 2
Beer		$ 5

Part IV

Step 1: Identify the contract with a customer: Transfer pretzel to student for promise of $4 or equivalent acceptable payment

Step 2: Identify the performance obligation: Transfer pretzels to student

Step 3: Determine Transaction Price: $4

Step 4: Allocate Transaction Price to the performance obligations in contract:

Step 5: Recognize Revenue as performance obligations are completed: $ 4

Unearned Service Revfrom Coupon	$ 2	
Discount on Coupon	$ 2	
Pretzel Sales		$ 4

Case 11:

Deferred Income Taxes

Zagg, Inc.

A – E, F,

A. Book Income is what is required by FASB to be reported for financial purposes;

   $ 23,898 is the book income for Zagg Inc. for fiscal 2012;

   Book income differs from taxable income due to both temporary and permanent differences. Temporary differences will reverse over time while permanent differences will not. For example, for book purposes, revenue is recognized when realized or realizable. However, for tax purposes, revenue is recognized on a cash basis which means revenues aren't recognized until the cash is collected.

B. I. Permanent Tax Differences: Permanent Tax differences result from items that enter into pretax financial income but never taxable income, or enter into taxable income but never into pretax financial income. For example, if a company pays life insurance premiums for key officers (key man life insurance) of 5,000 in 2016 and 2017. Although not tax-deductible, Bio-Tech expenses the premiums for book purposes. This difference will never reverse.

   II. Temporary Tax Differences: the difference between the tax basis of an asset or liability and its reported amount in the financial statements, which will result in taxable amounts or deductible amounts in future years. Taxable amounts increase taxable income in future years. Deductible amounts decrease taxable income. An example is that companies on an accrual basis recognize revenues when it is realized or realizable. However, for tax purposes the cash basis is used, so revenues aren't taxed until the payment is received. This would create a future taxable amount because taxable income will be higher than book income in the future.

III. Statutory Tax: Is the legal tax rate that is imposed by law.

IV. Effective Tax: Is the rate that companies book incomes are taxed on average. This is calculated by taking the income tax expense (provision) and dividing it by book income recorded.

C. A company generally reports deferred income taxes as part of their total income tax expense because of the differences in the standards of reporting. For example, companies will recognize revenue and expenses when they can reasonably expect said revenue and expenses will occur, however, for tax purposes, these revenues and expenses will not be recognized until cash is paid.

D. A deferred tax asset occurs when a company's taxable income is greater than its book income. This causes the company to pay higher taxes for that given year and less for the following ears. A deferred tax liability occurs when a company's taxable income Is less than its book income, and subsequently the company owes taxes in the following years.

E. A deferred tax valuation allowance is an account that a company sets up when it becomes clear that they will not realize a portion of the deferred tax asset due to a loss in Net income.

F. I. Income tax provision for Zagg Inc. in fiscal 2012

Income Tax Expense	$ 9,393	
Net Deferred Tax Asset	$ 8,293	
Income Taxes Payable		$ 17,686

II. Deferred Tax composition for Zagg Inc.

Income Tax Expense	$ 9,393	
DTA	$ 8002	
DTL	$ 292	
Income Taxes Payable		$ 17,686

III. Effective Tax Rate = Taxes paid9,393/23,898 = 39.3%

IV. The deferred income tax asset balance is represented in current assets for the current portion of 6,912 and in the noncurrent assets for the noncurrent portion of 6,596. This helps represent to investors and creditors what the future tax effect will be on Zagg Inc.

Case 12:

Leases

Build-a-Bear Workshop

A. Companies Lease assets rather than buying them outright because leasing them does not require as much capital as buying them outright. This can be beneficial when a company has a deficiency in working capital. Some leases could also benefit a lessee because ownership may revert to them at the end of the lease term.

B. Operating Lease: An operating lease is a lease that: 1. Does not transfer ownership of the property to the lessee. 2. Does not contain a bargain-purchase option 3. The lease term does not equal or is less than 75% or more of the estimated economic life of the leased property. 4) The present value of the minimum lease payments is less than 90 % of the fair value of the lease property.

   Capital Lease: A Capital lease is a lease that: 1) Transfers ownership of the property to the lessee. 2) Contains a bargain-purchase option 3) The lease term equals or is more than 75% or more of the estimated economic life of the leased property. 4) The present value of the minimum lease payments equals or exceeds 90 % of the fair value of the lease property.

   Direct Financing Lease: Is a lease in which the lessor records a lease receivable. The lessee is essentially financing the asset. The lessor records income in the amount the interest payment.

Sales Type lease: A lease that is the same as a Direct Financing Lease except that the gross profit recognized at the inception of the lease is the PV of all lease payments minus the cost of the leased asset.

C. Accountants distinguish these separate leases because each type of lease has a different nature and purpose inherently. These differences play key roles in preparing financial statements and providing accurate information to creditors and investors

D. I. This lease is operating because it does not meet any of the four requirements for a Capital Lease.

II. Rent Expense	$ (in millions)	100,000	
Cash			100,000

III.

P1. Rent Expense	100,000	
Deferred Rent		100,000
P.2 Rent Expense	100,000	
Deferred Rent	25,000	
Lease Obligation		125,000
P.3 Rent Expense	100,000	
Deferred Rent	25,000	
Lease Obligation		125,000
P.4 Rent Expense	100,000	
Deferred Rent	25,000	
Lease Obligation		125,000
P.5 Rent Expense	100,000	
Deferred Rent	25,000	
Lease Obligation		125,000

E. I. The amount of rent expense on Operating Leases for 2009 was 46.8 million

II. SGA and Store Preopening as well as Deferred Rent

F. I.

PV of the future minimum lease payments at January 2, 2010			
2011	$50,651	0.93	$47,337
2011	$47,107	0.87	$41,145
2012	$42,345	0.82	$34,566
2013	$35,469	0.76	$27,059
2014	$31,319	0.71	$22,330
2015	$25,229	0.67	$16,811
2016	$25,229	0.62	$15,711
2017	$25,229	0.58	$14,683
Total			**$219,643**

G.

II. PP & E	219,643	
Lease Obligation		219,643
V. Lease Obligation	35,276	
Interest Expense	15,375	
Cash		50,651
Depreciation Expense	27,455	
A/D – PP&E		27,455

H. With Operating Leases, there is no increase in liabilities or assets, therefore the liquidity is not increased in comparison with what it would be under Capital Leases. This will cause the current ratio to be more favorable due to the greater increase in assets than current liabilities.

I.

	Under Operating Lease	Under Capital Lease
Current Ratio	1.66	1.68
Debt-to-Equity Ratio	.73	1.84
Long-term-debt-to-assets ratio	.13	.47

It is not true that Capital leases always lead to weaker liquidity and solvency.

The liquidity rate will be better because of the greater increase in assets than current liabilities. The solvency rate will be weaker at the beginning of the Lease term when much of the lease obligation is outstanding. As this accrues over time, the solvency will become stronger.

Bibliography

The work done on this Thesis is my own. The interpretations of the FASB Codification and related opinions are my own thoughts and therefore the resources used in the completion of this work are limited.

The FASB Codification can viewed with appropriate login credentials at:
https://asc.fasb.org